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DRAFT REPORT OF THE SPECIAL COMMITTEE ON PREFERENCES ON ITS TWENTY-FIRST SESSION

Held at the Palais des Nations, Geneva,
from 16 to 20 May 1994

Rapporteur: Mr. Z. Baltacioglu (Turkey)

Note for Delegations

This draft report is a provisional text circulated for clearance by delegations.

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The UNCTAD Editorial Section
Room E.8106
Fax No. 907 0056
Tel. No. 907 5657 or 5655

INTRODUCTION

1. The twenty-first session of the Special Committee on Preferences was held from 16 to 20 May 1994. In the course of its session, the Special Committee held ... plenary meetings (181st-...). In addition, private and confidential bilateral consultations were also held on individual schemes. This report gives an account of the deliberations in plenary meetings.

Introductory statements

2. The **Chairman** said that this session was important for three reasons: it was the first session since the successful conclusion of the Uruguay Round; it would serve as a preparatory meeting for the 1995 policy review of the Generalized System of Preferences (GSP); and, it was the appropriate time to examine the scope and modalities of extending preferential treatment, as called for in the Cartagena Commitment. The notable development in the field of GSP was the conclusion of the Uruguay Round. While a comprehensive analysis was needed, it was nevertheless possible to see that the successful conclusion of the Uruguay Round had brought new impetus to international trade, including the GSP and its rules of origin. Although the direct effect on the GSP would be an erosion of the preferential margin for certain items, owing to the reduction of tariffs on a most favoured nation (MFN) basis, new opportunities had appeared in favour of developing countries. These included possible extension of product coverage for products subject to various types of non-tariff measures (NTMs) and possible reform of origin rules, because post-Uruguay Round low levels of MFN duty rates no longer justified such stringent criteria, as the risks of possible trade diversion or use of origin rules to safeguard the interests of domestic producers would be substantially reduced. Other issues to be addressed were the duration of schemes, minimizing various quantitative limitations, criteria for "graduation", and technical assistance. As this session was the first step in the 199' GSP policy review process, it would be especially meaningful if the Standing Committee could produce a substantive text that could form an agreed basis for the 1995 policy review.

3. The **Officer-in-charge of UNCTAD** said that the Uruguay Round had opened the way for new impetus to be given to international trade. It was thus fitting that attention should turn to the GSP. Upgrading it and streamlining its operation was vital as the GSP had served as one of the most important instruments of trade cooperation between developed and developing countries in the postwar period. The trade generated by the GSP system had increased steadily; in 1992, a total of $77.4 billion of imports from beneficiaries received preferential treatment. This growth in trade had increased the capacity of developing countries to import, in

particular from developed countries. However, the GSP had still not reached its full potential, mostly because of the measures limiting its scope and restrictions surrounding its operation. At a time when most developing countries were introducing policies aimed at opening their economies to world markets, an improved GSP might be a potent force in bringing about this objective. At this juncture there was a lot at stake: the GSP was currently at a turning point. At the twentieth session, the Chairman had summed up the views expressed in the Special Committee as follows: "while agreeing to the importance of the GSP, a number of countries felt that the system should be revitalized and that fresh and innovative approaches should be taken in its design, review and improvement". Accordingly, at the same session there was consensus on a decision to conduct in 1995 a policy review of the GSP, in order to consider these issues.

4. A first area of concern was the extension of some major schemes. The extension of at least one scheme was already under discussion and was expected to be decided on by the end of 1994. However, uncertainties still persisted in relation to another scheme. Some beneficiary countries and the media had voiced an additional concern: possible new conditionalities being set on GSP benefits.

5. The reduction of MFN tariffs agreed to in the Uruguay Round would provide new opportunities for developing countries. However, the direct effect on GSP would be an erosion of the preferential margin for certain items. The Cartagena Commitment, in paragraph 140, specifically called for GSP preference-giving countries to consider, upon the successful conclusion of the Uruguay Round, increasing, where possible, preferential margins and duty-free treatment under their schemes. The conclusion of the Uruguay Round offered room for expansion of GSP benefits in at least two areas: tarification of all non-tariff measures in agricultural products; and the phase-out of the multi-fibre arrangement (MFA) governing the textile and clothing trade.

6. Another issue linked to the expansion of the GSP scheme was that of "graduation". This concept had been specifically addressed at the nineteenth and twentieth sessions of the Special Committee and had also been considered by the Ad Hoc Expert Group Meeting on the GSP, convened by the Secretary-General of UNCTAD in February 1994 as part of the preparatory work for the 1995 policy review. The debate over the scope of graduation had indicated a clear preference for making it country/product-wise rather than country-wise. A clear and balanced mechanism needed to be devised to ensure that the objectives of the GSP were respected. Ideally any country/product exclusions should be phased in over a reasonable warning period and should be reversible. In the light of the GSP objectives, the Special Committee might wish to invite the secretariat to study and make recommendations as to how country-product graduation measures might be taken.

7. The Uruguay Round had broken new ground in bringing under GATT discipline the rules of origin. Although the text concerned only non-preferential rules of origin, the Common Declaration on preferential rules of origin might offer the Special Committee new opportunities and lines of action in an area where progress had so far been limited.

8. Finally, he noted that technical cooperation activities had been increasingly recognized as effective tools for disseminating information on the advantages of the GSP. UNCTAD's activities in this regard had been maintained at a high level in 1993 thanks to the generous trust fund contributions made directly by member States and through the United Nations Development Programme (UNDP). In-kind contributions had also been numerous. Such contributions were very much appreciated and further pledges for 1994 and the future would be valued highly. He welcomed in particular the pledges made by the Governments of Japan, Switzerland and Italy. However, owing to the changes expected subsequent to the renewal of some major schemes and the introduction of new trade rules, requests for technical cooperation activities were expected to increase. He, therefore, invited the Special Committee to examine how best to secure the necessary resources for technical cooperation, in order to ensure its effectiveness in the future on a predictable basis.

Chapter I

REVIEW OF THE IMPLEMENTATION, MAINTENANCE, IMPROVEMENT AND UTILIZATION OF THE GENERALIZED SYSTEM OF PREFERENCES, INCLUDING PREPARATIONS FOR THE 1995 POLICY REVIEW ON THE GSP

(Agenda item 3)

CONSULTATIONS ON HARMONIZATION AND IMPROVEMENT OF THE RULES OF ORIGIN

(Agenda item 4)

TECHNICAL ASSISTANCE IN CONNECTION WITH THE GENERALIZED SYSTEM OF PREFERENCES

(Agenda item 5)

9. For its consideration of these items, the Special Committee had before it the following documentation:

"Seventeenth general report on the implementation of the generalized system of preferences: Recent changes and policy issues" - Report by the UNCTAD secretariat (TD/B/SCP/6) (item 3);

"Report of the Ad Hoc Expert Group on the Generalized System of Preferences" (TD/B/SCP/9) (item 3);

"Review of past discussions, recent developments and possible ways forward" - Report by the UNCTAD secretariat (TD/B/SCP/8) (item 4);

"Technical cooperation activities on the generalized system of preferences and other trade laws, 1993" - Report by the UNCTAD secretariat (TD/B/SCP/7) (item 5).

10. The **Director of the International Trade Division** referred to the "Seventeenth general report on the implementation of the generalized system of preferences" (TD/B/SCP/6) which highlighted the main changes and improvements made to the GSP and also updated information on the trade effects of the system. Preferential imports had continued to show dynamic growth, reflecting the trade expansion policies of many preference-receiving countries which, inter alia, had adapted their production and export supply capabilities in product lines covered by the GSP schemes. He pointed out that the GSP schemes as a whole covered roughly 50 per

cent of all dutiable exports from beneficiaries, of which in turn about 50 per cent received GSP treatment. This meant that only a quarter of all dutiable exports were imported under the GSP scheme. Moreover, it implied that vast untapped possibilities existed for preferential treatment even under the existing trade structure. Following the agreement on preparations for the 1995 policy review on the GSP reached at the twentieth session of the Special Committee, the twenty-first session would devote attention to preparations for the 1995 policy review on the GSP. Hence the secretariat report had also highlighted the emerging economic and policy environment for the GSP and provided several options for improving its effectiveness, taking into account a study entitled "Possible improvements to the Generalized System of Preferences" (UNCTAD/ITD/8), prepared by a consultant. The conclusion of the Uruguay Round of Multilateral Trade Negotiations was one notable development with implications for the effectiveness of the GSP and the scope for further improvements in accordance with the Cartagena Commitment. Therefore, some preliminary indicative figures have been given regarding possible erosion of the preferential margin, based on information collected by the UNCTAD secretariat.

11. With regard to possible improvements in the GSP system, there were three priority areas. First, a substantial expansion of product coverage would be one of the most efficient ways to improve the effectiveness of the GSP in order to maintain benefits following the conclusion of the Uruguay Round, taking into account the export interests of beneficiary countries and, in particular, those of the least developed countries. Secondly, there was a need to minimize various quantitative limitations and restrictions on preferential imports as only half of covered exports actually received preferential treatment, mainly because of various quantitative limitations. In the GSP context, general safeguard measures analogous to Article XIX of the GATT were rarely used. Third, the GSP rules of origin should be comprehensively reviewed. Post-Uruguay Round low levels of MFN duty rates no longer justified such stringent criteria and, as the Chairman had mentioned, there was less risk of possible trade diversion or use of rules of origin to safeguard the interests of domestic producers. It was expected that a detailed technical analysis would be carried out by the Customs Cooperation Council (CCC), so that non-preferential rules of origin could be harmonized. As this work would have a considerable impact on the GSP rules of origin, the UNCTAD secretariat would closely monitor such developments. Existing unilateral graduation measures in some schemes could also be discussed in this context, with a view to establishing multilaterally agreed objective criteria for these measures. An in-depth study on this issue could be undertaken. There were two new issues in the GSP context, i.e. "green" GSP and possible extension of the GSP concept to trade in services.

12. The Ad Hoc Expert Group on the Generalized System of Preferences convened by the Secretary-General to assist the secretariat for the preparations for the 1995

policy review on the GSP had made recommendations and conclusions for the 1995 policy review (TD/B/SCP/9). While they had considered the original objectives of the GSP to remain fully valid, the experts believed its principles needed to be realistically reinterpreted on a multilateral basis in order to revitalize the GSP. They recommended a number of areas for improvement such as extension of product coverage, increased preferential margins as well as harmonization and a fairer burden-sharing among the different schemes which might also lead to more comprehensive product coverage. The experts also recommended a multilaterally agreed graduation mechanism enabling preference-giving countries to change the country coverage in the event of disturbances in their domestic markets. It was felt that such graduation measures should be on a product/country basis rather than a country basis. Furthermore, suspension should not entail a decrease of GSP benefits in terms of preferential trade and tariff revenue foregone.

13. The secretariat report, "Consultations on harmonization and improvement of the rules of origin: Review of past discussions, recent developments and possible ways forward" (TD/B/SCP/8), summarized past discussions and recent developments and set out a number of proposals for harmonization and simplification of the GSP rules of origin. Despite the efforts by the Committee over the past 20 years or so, limited progress had been made on this and the problem of the two different sets of rules, i.e. the process criterion and the percentage criterion, remained. The planned harmonized non-preferential rules of origin to be worked out by the WTO/CCC should be adopted as a base for GSP trade. The Ad Hoc Expert Group also recommended that the Special Committee establish a working group to examine possible policy guidelines, including the new agreement in GATT on non-preferential rules of origin and the Common Declaration on preferential rules of origin.

14. As for "Technical cooperation activities on the GSP and other trade laws, 1993" (TD/B/SCP/7), despite the decline of funding, the delivery of such UNCTAD activities remained at a high level. Member States which had so generously provided financial and in-kind contributions deserved praise as this, together with UNDP funding, allowed these valuable activities to be maintained. As many GSP schemes would be revised partly or entirely to reflect the Uruguay Round agreements and, accordingly, new individual GSP handbooks must be published, continued financial and in-kind support from member States was essential to this effort. The Technical Cooperation Programme on the GSP and Other Trade Laws had made a significant contribution to the fuller utilization of the GSP by way of disseminating up-to-date information, providing detailed analysis of complicated GSP rules of origin and installing of the software package on the Trade Analysis and Information System (TRAINS) at the GSP focal points. The GSP programme was mainly targeted at low- and middle-income beneficiaries, including the least

developed countries. All member States of UNCTAD were invited to consider making contributions to the Programme so that the level could be sustained.

15. The spokesman for the **Group of 77** (Chile) said that his Group looked with great interest on the new era which had dawned with the conclusion of negotiations on the Uruguay Round. It was now time to make true progress with a new generalized system of preferences in view of the significant erosion of preferential margins as a result of the Uruguay Round. Moreover, it was necessary to adjust the GSP to the new reality brought about by the Uruguay Round so as to maintain the system which provided support to development and trade for developing countries. If the developed countries would analyse the erosion resulting from the Uruguay Round this would be a step in the right direction; they should try to make adjustments that would enable developing countries to maintain or increase their preferential margins.

16. His group welcomed the integration of the agricultural and textile sectors in the new GATT. It would be desirable to obtain a substantive reduction of tariffs and non-tariff measures, together with an expansion of product coverage, particularly with regard to agriculture, fisheries, textiles and footwear. UNCTAD should study the impact of the new regional free trade agreements along with the Uruguay Round agreements in relation to the GSP. Effective ways had to be found to make the GSP more transparent, dynamic, consistent and effective, in order to utilize it to a maximum.

17. The effect of non-tariff measures on exports of developing countries was of great importance because such measures were concentrated in sectors where developing countries had comparative advantages. These discriminatory measures affected more than 50 per cent of exports; they had been increasing and protected the markets of developed countries in a non-equitable way. This was a big problem for developing countries which had undertaken economic reforms, including import liberalization, but still faced problems with regard to external debt and the balance of payments. It was also important to reduce substantially various quantitative limitations on products of interest to developing countries so that they could achieve real access to developed country markets.

18. Administration of the schemes, graduation measures and the rules of origin bearing on the effectiveness of the system were issues that had to be discussed in a multilateral context. The GSP, being a unilateral and temporary system which could be withdrawn at any time, was uncertain and insecure, and affected in particular long-term investments. Various quantitative limitations in the form of quotas, ceilings or maximum country amounts, as well as graduation measures, made the GSP extremely complicated. Such complexity was contrary to the basic

principles of the GSP and ran counter to the objective of promoting industrialization in developing countries. Issues relating to labour standards, environmental measures and intellectual property rights rendered the scheme even more complicated. While some of these issues had not been discussed in an appropriate forum, others should be analysed further with a view to reaching consensus. It was urgent to define a system of early warning which would enable beneficiaries to identify affected sectors. It was important that both the preference-giving countries and the beneficiary countries agree on a mechanism to handle graduation measures or suspension of preferential treatment, including a reasonable grace period. There was an urgent need to harmonize rules of origin. Although the Uruguay Round Agreements on such rules had established common principles, this did not mean that the Round had created harmonized rules of origin for GSP purposes. A formula to harmonize GSP rules of origin had to be sought. The Group of 77 was seriously concerned over assuring that GSP benefits would be enjoyed by the least developed countries, taking into account their economic situation. It would be necessary to find adequate measures to compensate for possible erosion of the GSP affecting them.

19. The representative of **Switzerland** said that the Uruguay Round negotiations had formed a water-shed in the history of world trade. They had created only potentialities for exports by developing countries. Thus the decision to undertake a review of the GSP schemes, as provided for by the Cartagena Commitment, had been timely. The Swiss Government had requested a study on the impact of the Uruguay Round on the developing countries prior to ratification of the Marrakesh agreements. Whether the GSP remained an adequate instrument to attain this objective was a moot question. The principles inherent in the GSP, such as non-discrimination and non-reciprocity, were no longer respected. Undeniably, there were differences in export performances among developing countries. The UNCTAD proposal to study the possibility to elaborate objective criteria for graduation had her country's complete support.

20. UNCTAD should also study ways to render the GSP more multilateral in practice. If one considered the tariff reduction agreed on in GATT and the reductions agreed on in various free trade areas, the GSP benefits were merely equivalent to re-establishing on the same footing the developing countries and the countries members of the free trade areas. However, certain developing countries had unilaterally liberalized their trade policy and reduced rates of duty in recent years but these concessions remained unbound in the GATT. The Government of Switzerland would therefore suggest that the UNCTAD secretariat study the possibility of elaborating a plan to consolidate and bind these tariffs in GATT. The preference-giving countries would undertake within the GATT framework to maintain the GSP with a clear and defined graduation programme. In conclusion, she

said that the Government of Switzerland supported the extension of the GSP concept to other areas such as services and investments and requested that UNCTAD study these possibilities. The new GSP could be a totally different system offering new possibilities for developing countries to benefit from the opportunities newly created by the outcome of the Uruguay Round.

21. The representative of **Austria** said that while the future of his country's GSP scheme was rather uncertain, owing to the country's possible membership in the European Union, the latest developments had been correctly reflected in the seventeenth general report on the implementation of the GSP (TD/B/SCP/6). With regard to rules of origin, the UNCTAD secretariat's report (TD/B/SCP/8) had put forward interesting views and proposals along with some rather controversial ones. It should be possible to agree on future guidelines in the context of the policy review of the GSP next year. While new GATT rules of origin to be developed would be solely of a non-preferential nature, the undeniable underlying interrelationship was like two sides of the same coin; this would have to be reflected carefully. The report of the Ad Hoc Expert Group on the Generalized System of Preferences (TD/B/SCP/9) deserved special attention for the way it highlighted aspects of possible future directions for the GSP. Although many of these aspects would have to be dealt with in the 1995 policy review, a frank discussion of some of these points at an informal meeting during the current session might provide a useful input for another meeting of the Ad Hoc Expert Group. Austria could not support the suggestion made by the expert group that the Special Committee should consider further the issue of a GSP for services. Already at the time when this issue was raised during UNCTAD VIII in Cartagena, it was extremely controversial. Austria's position in this regard had not changed since then. The Special Committee's work should be based on UNCTAD resolution 21 (II) and on the results of the earlier sessions of the Special Committee, whose underlying assumptions were exclusive concentration on preferential trade in goods. Any broadening of the scope to cover trade in services would require a decision by a higher level than that of the Special Committee. On the subject of the technical assistance programme, he said that his country traditionally had given considerable attention to this activity out of conviction for its importance. Paragraph 17 of the report of the Ad Hoc Expert Group had underlined the programme's contribution. The secretariat's report on technical cooperation activities (TD/B/SCP/7) also showed his country's active cooperation on the GSP project throughout the reporting period, although it had remained at a low level owing to personnel constraints. Austria was seeking to revitalize its efforts in this field and was pursuing the idea of financing a GSP seminar for some African least developed countries in the near future.

22. The representative of **India** said that, in over two decades of operation, the GSP had been a useful instrument for trade creation in all countries. Developing

countries had benefited from GSP preferential tariffs, as shown by the fact that their imports had increased at an average annual rate of about 8 per cent since 1976, while their GSP exports had increased at a rate of above 13 per cent. In 1992, some $US 80 billion of exports from developing countries had benefitted from the low or zero tariffs in OECD preference-giving countries. As the usefulness of the GSP schemes was undeniable, his country was encouraged to make suggestions regarding certain improvements which would further strengthen the commitment on global economic cooperation. The GSP schemes should be extended for another decade by all the preference-giving countries. The reduction of tariffs consequent upon the implementation of the results of the Uruguay Round would erode the GSP preferential margins, ranging from about 9 per cent in the United States, about 15 per cent in Japan, and about 23 per cent in the European Union. He, therefore, urged that the preference-giving countries adhere to the Cartagena Commitment and make the necessary adjustments in their schemes so as to maintain their effectiveness. The foremost necessity was to impart continuity, stability and predictability in the GSP schemes. Secondly, it was necessary to make adjustments in the product coverage and depth of tariff cuts so as to maintain and enhance the value of the schemes. Thirdly, it was necessary to reaffirm the generalized, non-discriminatory and non-reciprocal principles on which the GSP had been founded. The schemes now had a tendency to become less generalized and discriminatory; reciprocity was being demanded in certain cases. The linking of the GSP with such issues as workers' rights, protection of intellectual property rights and the environment was overloading the GSP and the utmost caution should be taken over such linkages. Tariff quotas, ceilings, maximum country amounts and competitive need limitations created uncertainty among entrepreneurs, since they did not know whether goods already produced or even already shipped were going to benefit from GSP. Empirical evidence also suggested that competitive need exclusions benefited largely the non-GSP suppliers from developed countries and some major GSP beneficiaries. The concept of graduation was a source of complexity in GSP schemes. Product-specific graduation could lead to disruption of trade flows, altering the conditions of competition for the graduated country. If graduation measures were in fact needed, it would be appropriate to graduate countries as a whole once they had reached an adequate level of development. An important improvement in certain GSP schemes would be the inclusion of products such as textiles and clothing, footwear and leather products and semi-processed and processed agricultural products.

23. Simplification and harmonization of rules of origin would impart greater transparency to these rules. The introduction of donor country content as well as global cumulation would also help improve the situation. An extension of the GSP to services could be usefully explored in the time leading up to the 1995 policy review. A strengthened, improved and expanded GSP preferential system would be a

measure of support for developing countries' trade liberalization policies which, apart from benefiting the developing countries themselves, would also stimulate growth in global trade.

24. The representative of **Norway** said that since the twentieth session several changes had been made to the list of beneficiaries under the Norwegian GSP scheme. First, pursuant to the entry into force of two free trade agreements concluded between the EFTA countries, on the one hand, and Romania and Bulgaria respectively, on the other, the latter two countries had been deleted from the list as from 1 October 1993. Secondly, four new beneficiaries had been added to the list: Albania, from 9 July 1993; the former Yugoslav Republic of Macedonia, from 29 October 1993; Mongolia, from 21 January 1994; and the Republic of South Africa, from 6 May 1994. In particular, Norway welcomed the unique political development in South Africa, which had brought about the change in his country's economic policies vis-à-vis that country. The granting of GSP treatment to South Africa would be a contribution to integrating it into the world economy and promoting economic and social development within the country. On the subject of product coverage, from 1 January 1994 all items under HS code 61.15 had been granted duty-free entry. The latest 1992 statistics showed that 80 per cent of Norwegian imports from GSP beneficiaries were eligible for duty-free entry, either on a GSP or an MFN basis. The utilization rate of the Norwegian GSP scheme in 1992 was 69 per cent, the highest figure recorded during the last 15 years.

25. With regard to technical assistance, Norway considered that UNCTAD had made an essential contribution to the utilization of the GSP through its broad Technical Cooperation Programme in this field and Norway had been a faithful contributor to this effort for a number of years. Norwegian support to the Programme, which annually amounted to around $US 40,000, was channelled into the central trust fund and thereby allowed for maximum flexibility in the use of his country's contributions. There was clearly a need for continued technical assistance in the field of GSP, especially for the least developed countries owing to the expected changes in the GSP as a result of the Uruguay Round. In this connection, the Norwegian Government wished to urge preference-giving donors, in particular those which had contributed less than their reasonable share, to contribute to securing the financial basis for the Technical Cooperation Programme.

26. The representative of **Argentina** said that the conclusion of the Uruguay Round had brought new challenges and opportunities so that the updating and renewal of the GSP was more important than ever for the developing countries, especially for those which had undertaken structural reforms and consolidation of their trade liberalization measures. As the expert group had affirmed (TD/B/SCP/9), the principles of the GSP, that is their generalized, non-discriminatory and non-

reciprocal nature, remained fully valid. However, the possibility of realistically interpreting them should not be excluded, provided this could be done on a multilateral basis and in the spirit which had governed the system since its inception. The expert group had also reached a consensus on the importance of keeping changes to the schemes to a minimum for at least five years, although an even longer period would be better. Some sectors, such as foodstuffs, wool, footwear and leather goods still had high tariffs. Progress could be made by expanding GSP coverage to these products. For foodstuffs, product coverage should be based on duty-free access excluding any compensatory amounts (as mentioned in TD/B/SCP/6, para. 71). The Uruguay Round had incorporated GATT disciplines in sectors not previously regulated. In the case of agricultural products, tariff peaks would exceed 80 per cent, according to findings presented by the UNCTAD secretariat (TD/B/SCP/6, para. 73). It would be useful if the secretariat could elaborate on this analysis and also cover the textile sector, for an evaluation of the real impact. Technical cooperation to developing countries was important to help them utilize the schemes better. As for graduation, the criteria should be multilaterally agreed upon; country/product graduation and country graduation should be differentiated. In the first case, as proposed by the ad hoc expert group, objective economic criteria should be applied, such as market share, industrial capacity, level of development and diversification, bearing in mind the concept of "neutral effect" of the withdrawal of a preference. The product in question should have acquired sufficient "maturity" to allow it to compete with suppliers not enjoying preferences. Prior consultation should also be provided for. In the case of country graduation, general criteria based on GNP were not comprehensive enough. Consideration should be taken of high-income countries dependent on only one product and having a low level of industrialization. His delegation held the view that the regional integration phenomenon, such as MERCOSUR, was positive and did not have any restrictive effects on trade such as those described in TD/B/SCP/6 (para. 50).

27. He then referred to the proposal to grant additional benefits to environmentally friendly products: a kind of "green" GSP. This concept was interesting but care would need to be taken to ensure that the benefits were additional, covering for instance, agricultural products not currently within the schemes. Moreover, any step taken should be the result of multilateral negotiations based on an analytical study by UNCTAD. TD/B/SCP/6 had rightly noted that developing countries did not desire additional benefits for the establishment of higher environmental standards in so far as it would influence the environmental policy of a country (para. 99). The idea of GSP on services required further study. Finally, with regard to the rules of origin, revitalization of the GSP without harmonization and simplification of these rules was unimaginable.

28. The representative of **Romania** stated that the GSP, in operation for more than 20 years, had been useful as an instrument of commercial policy in promoting developing countries' exports. Although improvements had been made to the schemes over the decades, more could be done in order to achieve the objectives set out in UNCTAD resolution 21 (II). This was especially true since the conclusion of the Uruguay Round. Action in several directions was needed to improve the GSP. First, since only 50 per cent of dutiable products were covered by the GSP schemes, a net expansion of product coverage would improve the efficiency of the GSP. Secondly, all preference-giving countries should provide duty-free access for GSP-covered products or at least increase the preferential margin. The tarification of the non-tariff measures applied to the agricultural sector and dismantling of the Multi-Fibre Arrangement provided opportunities to grant duty-free access or an increased preferential margin in these areas. Thirdly, efforts should be made to reduce or eliminate limitations or restrictions on preferential imports. Fourthly, multilaterally agreed criteria for graduation should be explored. Fifthly, it would be necessary to liberalize, simplify and harmonize GSP rules of origin. All preference-giving countries should also adopt donor country content and global cumulation. Sixthly, it was important to intensify technical assistance on GSP despite the declining funds available. It was hoped that bilateral donors and UNDP would increase their contributions. Finally, innovative approaches should be adopted regarding the concept of the GSP. In this context, he supported the proposal to grant additional benefits to environmentally friendly products. Romania was currently in transition to a market economy, and the GSP facilitated this transition process by improving the balance of payments. Following agreements with the European Union and EFTA countries, the trade preferences accorded under GSP had been integrated into these agreements. Finally, he welcomed the decision of the United States of America to re-establish Romania as a beneficiary after its withdrawal in 1987 under the workers' rights provision.

29. The representative of **China** referred to the positive role of the GSP for export expansion and industrialization of developing countries. The GSP was of great significance for the sustained growth of the world economy, given the major changes in the world's economic and political situation. In the past year, the GSP schemes had improved in a number of areas. Nevertheless, GSP benefits generally continued to be eroded. The reduction of the scale of tariff preferences came partly as a result of the Uruguay Round, the establishment of free trade zones and other new preferential trade arrangements and partly owing to restrictive measures adopted by some preference-giving countries, such as quantitative restrictions and graduation. The GSP was thus in need of a comprehensive review. In such a review, it was hoped that donor countries would proceed from a premise of helping developing countries and making substantial improvements. To this end, such improvements should include establishing a stable, long-term duration for GSP, in

order to avoid the difficulties and inconveniences caused by short-term extension. It was also necessary to simplify and liberalize the rules of origin, reduce the burden of the benefiting countries in the implementation of the rules of origin, expand product coverage, eliminate non-tariff measures, reduce the losses to the preference-receiving countries caused by the Uruguay Round, and avert the reduction and erosion of the original GSP programme owing to regional integration and the formation of trade groups.

30. His country had obtained satisfactory results through its foreign trade and made substantial headway in the development of import trade. In the first quarter of 1994, trade with the United States was basically balanced. Imports from the European Union had exceeded exports to the same. China's import trade was likely to rise faster owing to the deepening of reforms, economic growth and increased demand for daily necessities. The trend of erosion of the GSP was a cause for concern, however. The current session, serving as a preparatory meeting for the 1995 policy review, should make an overall review and appraisal of the operations of the GSP in recent years, so that preference-giving countries could remove the various constraints weakening the GSP and contribute their due share to the revitalization of the GSP. Concerning technical assistance, his country appreciated the usefulness of the activities in acquainting participants with and helping them master the latest developments in the GSP and other trade laws. With the conclusion of the Uruguay Round, which required countries to revise their trade laws in accordance with the agreement reached, his country would like to see technical assistance activities continued and strengthened. The parties concerned might arrange for the financing of these activities. The UNCTAD workshops on the GSP and other trade laws held last year were highly appreciated. Furthermore, the secretariat's in-depth analyses and study had provided a sound basis for exploring the improvement and expansion of the GSP in an ever-changing international economic and political environment.

31. The representative of **Canada** said that after two decades of implementation of the GSP his country had reviewed the basic objectives and principles underlying the GSP implementation. The objectives were found to be still valid and relevant, providing an important policy instrument for encouraging sustained export growth. The Government of Canada, therefore, had introduced legislation in January 1994, which had been approved by the Canadian Parliament in March by which the GSP scheme has been extended for a further 10-year period, until 30 June 2004. The Republic of South Africa became a beneficiary effective 10 May 1994. Merely extending the GSP in its current form would not be adequate to ensure the objectives of the GSP for developing countries and, most importantly, for the least developed of the developing countries, since completion of the Uruguay Round, and so a full review of Canada's scheme was under way, with a view to reducing GSP

rates and expanding product coverage wherever possible. This review had been initiated in April 1994 and was expected to be completed by the end of 1994. Canada would also examine the desirability of maintaining the GSP for those countries which had reached a high level of economic development. The review moreover included public consultations with domestic interests in Canada and, particularly, beneficiary countries.

32. Regarding rules of origin for GSP purposes, Canada supported the themes of harmonization, simplification and liberalization wherever possible as well as the principles of transparency and predictability. These latter two principles were the key to the successful operation of any preferential trading system. Concerning one specific point raised in TD/B/SCP/8, paragraph 40, related to the direct consignment rule, he stated that in 1988 Canada had removed the requirement to identify the Canadian port of entry on the through bill of lading for GSP imports. With regard to technical assistance, the Canadian Government also continued to support actively the dissemination of GSP information through attendance of experts in seminars. In 1993, Canada had sent experts to assist in seminars in Brazil and China.

33. The representative of the **Russian Federation** said that the basic principles with regard to the GSP should be upheld as the GSP was an important and efficient tool contributing to the development of trade and economic growth of developing countries. Cooperation within the UNCTAD Special Committee on Preferences was seen as a sufficiently flexible mechanism for ensuring the economic interests of his country in the transition period. One hundred and forty-seven countries were beneficiaries of the scheme. According to data for a nine-month period in 1993, the volume of preferential imports had totalled $5.5 billion or 31 per cent of the volume of imports. Twenty-nine beneficiaries of the scheme were the biggest exporters of goods to his country (the volume of imports from each of them amounted to more than $10 million), namely Afghanistan, Algeria, China, Cuba India, Republic of Korea and Turkey.

34. By decree 196 of 10 March 1994, the Russian Government had new rates of import duty. With the exception of luxury goods and alcoholic beverages, rarely did rates exceed 25 per cent. Specific and combined duties on separate items, such as alcoholic beverages, tobacco and second-hand cars, had been introduced into the import tariffs. Minimal rates from 0 to 5 per cent were applied to commodities, socially important goods (medical equipment, pharmaceutical products, certain foodstuffs and commodities which could not be reproduced in sufficient quantities), spare parts, tools for machines and equipment, some types of materials and articles not produced in sufficient quantities but required for the development of various economic sectors, some types of manufacturing equipment necessary for modernization

or to ensure safety. Maximum rates (from 50 to 100 per cent) applied to luxury goods and alcoholic beverages. For consumer goods, rates usually did not exceed 25 per cent; rates ranging from 10 to 25 per cent were envisaged for the majority of finished and semi-fabricated articles. New tariffs were expected to maintain the former scheme. Particularly with regard to goods originating from the developing countries, excluding the least developed ones, basic rates of import duty were applied (MFN rates). Goods imported from the least developed countries entered duty-free. Presently a listing of beneficiaries of the temporary scheme was in force, by decree 614 of 21 August 1992. The work of improving the scheme of preferences continued. It was envisaged to keep the listing of the beneficiaries in its present form, although other countries might eventually be introduced. Likewise, the product coverage of the scheme was being evaluated. Eventually it would be a "negative list" of goods not covered by the scheme. The UNCTAD secretariat would be kept informed.

35. In closing he expressed appreciation to those countries and groups which had granted preferential trade conditions to his country, namely, Austria, Canada, the United States and the European Union. This considerably facilitated the conditions of access to their markets and was perceived as bringing additional external support to the reforms under way in Russia.

36. The representative of **Pakistan** said that the GSP schemes had benefited developing countries in their efforts to promote exports. Although the GSP was an autonomous measure which left little room for preference-receiving countries to be demanders in its administration, such an autonomous nature should not allow unilateral actions on the part of preference-giving countries because unilateralism would introduce an element of distortion in trade, disturbing the balance of rights and obligations of the developing countries. This could be illustrated by the example of developing countries bringing down their tariffs autonomously while distortion would not allow them to implement these on a non-MFN basis. In order to make the GSP more beneficial for the developing countries, the foremost priority was to administer it in a non-discriminatory manner, in accordance with the basic principle of the GSP. Failing to do so would upset the rights and obligations of developing countries vis-à-vis the importing country as well as between third countries. Regarding the factors of non-economic conditionalities in the GSP, the inclusion of the so-called "social clause" and the "green clause" was seen as a protectionist measure which should be avoided. Some preference-giving countries were seeking to introduce the concept of cascading preferential tariffs. This would have unfair consequences. Pakistan wished to renew its request for the extension of coverage to include textiles, leather products and footwear, as well as agricultural products. On the subject of graduation, although his Government

opposed the idea, it would opt for product graduation rather than country graduation but it should be based on clear and multilaterally agreed criteria.

37. While the Uruguay Round would provide developing countries with increased opportunities, some preferences would be eroded. It would be only reasonable and prudent to bring down the preferential tariff margin by at least one third as agreed on in the Uruguay Round pursuant to the Montreal Mid-term Review Decision. Regarding rules of origin, as the harmonization of non-preferential rules of origin would be discussed in the Customs Cooperation Council, as a result of the Uruguay Round, the Special Committee might decide to participate in this harmonization exercise and include GSP rules of origin as well.

38. The representative of **Japan** observed that the current twenty-first session was very important because it was the first since the conclusion of the Uruguay Round negotiations. Moreover, it was also the preparatory meeting for the 1995 GSP policy review. With regard to the recent developments in its GSP scheme, Japan had continued to make spontaneous efforts to improve its GSP scheme since the last review in 1990. In 1991, his Government had decided to extend its GSP for another 10 years, until March 2001, and to expand the ceiling quotas. In fiscal year 1994, the ceiling for one product group was abolished while ceiling levels for 45 product groups were raised. With regard to the rules of origin, Japan had relaxed the origin requirements for the clothing sector, which was classified under HS chapter 62 since November 1993. The number of beneficiary countries had also increased since the last review and GSP was granted to 134 countries and 25 areas. The number of least developed countries eligible for special treatment had also increased from 38 countries in fiscal year 1994. The GSP was seen as an effective instrument for facilitating the promotion of exports, industrialization and the economic development of beneficiaries, hence his Government would make efforts to improve the scheme, bearing in mind the original objectives of GSP. However, the GSP had been created and implemented as an autonomous measure, taking into account the tariff system, conditions of domestic industries in individual preference-giving countries and the needs of beneficiaries. While recognizing an erosion of GSP preferences as a result of the agreed tariff reduction in the Uruguay Round, the trading opportunities of the developing countries would be greatly expanded as a result of the reduction. With respect to graduation measures, it was natural that countries/regions or specific products of the countries/regions which had become competitive enough with developed countries should graduate from the GSP scheme, in the light of its objectives.

39. As the UNCTAD Technical Cooperation Programme on the GSP and Other Trade Laws was deemed useful in helping beneficiaries to strengthen their technical and administration capacity for fuller utilization of GSP schemes, the Government of

Japan had been supporting the Programme by sending an associate expert to the UNCTAD/UNDP Regional Project for Asia and the Pacific as well as by financing a number of seminars. During the last 12 months, Japan had financed four national seminars in Thailand, the Czech Republic, Bulgaria and Brazil. For the fiscal year 1994, Japan, subject to the approval of the Diet, intended to contribute US$ 250,000 to finance GSP seminars under the Programme. In addition, it annually provided pamphlets in English explaining Japan's GSP scheme.

40. The representative of **Senegal** asked the secretariat to clarify why during the past two years only a small number of technical cooperation activities had been carried out in the African region. The **representative of UNCTAD** answered that this situation was mainly due to lack of funds.

41. The representative of **Brazil** said that the 1995 policy review should provide the opportunity for a multilateral discussion with a view to responding to the new challenges facing the GSP since the Uruguay Round's conclusion. The revision could set the stage for long-term change that would give renewed importance to the GSP. However, if a genuine multilateral discussion did not take place but, on the contrary, preference-giving countries, shielded by the unilaterality of the schemes, multiplied conditionalities and discrimination, the resulting loss of interest might do irreparable damage to this instrument. He recalled the statement made by the representative of Chile on behalf of the Group of 77 which showed that developing countries were open to discussion on even sensitive issues related to the system. In this connection, his Government appreciated the ideas presented by the delegation of Switzerland to initiate a multilateral discussion on the future of the GSP. The objectives of the GSP could not be read narrowly. As for example, the objective of favouring the industrialization of developing countries did not mean that GSP should cover only industrial products. With the tarification processes of the Uruguay Round, an expansion of product coverage would renew the importance of the system. Eventual departures from the established principles of the system could only be considered when a guarantee of application of multilaterally defined criteria existed. The issue of product graduation would be examined in the context of a wider review of the system. Little clarity had been provided concerning the renewal of two major schemes and their format. It should have been possible for those two important schemes to incorporate the results of the 1995 policy review. As in the past, transparency, stability and predictability were areas where improvements were not conditional upon fundamental changes in the schemes. The proposal of the Ad Hoc Expert Group regarding creation of a working group of officials of preference-giving and preference-receiving countries to work directly on the issue merited support, provided that a clear mandate was established. The greatest change in the system in recent years had been the extension of GSP benefits to Central and Eastern European countries. A study

should have been made of the impact on GSP of such inclusion. His Government appreciated the UNCTAD secretariat's assistance with a GSP seminar in Brazil and was grateful to the Government of Japan for financing it.

42. The representative of **Thailand** said that her country recognized the GSP as a significant instrument for expanding Thailand exports to preference-giving countries. As a GSP beneficiary since the inception of the system in 1971, her country's GSP exports had increased from $US 4.8 million to about $US 7.1 billion over the past 22 years. However, the restrictive measures imposed by some preference-giving countries in the form of quantitative restrictions and graduation or withdrawal of benefits for certain products for reasons unrelated to trade had prevented her country from taking full advantage of GSP benefits. Thailand was, therefore, calling on the preference-giving countries which had attached restrictive measures to their schemes to comply fully with the principles of the generalized, non-discriminatory and non-reciprocal character of the GSP. With regard to UNCTAD's technical assistance programme, it not only helped developing countries arrive at a deeper understanding of the GSP schemes and to make more effective use of the GSP and increase their exports, but it would also help in promoting greater cooperation between developed and developing countries. Her country hoped that UNCTAD would continue this activity. She expressed appreciation for the efforts made by the Special Committee on Preferences to liberalize, harmonize and simplify the rules of origin and looked forward to seeing this task completed in the near future. This would imply lower administrative costs to producers and a wider use of GSP benefits.

43. The representative of the **Republic of Korea** said that the GSP scheme might have some negative impact on South-South trade but that such cooperation was covered by other mechanisms, as for example the GSTP in which many developing countries, including his own, were actively participating. The GSP's role in expanding international trade for the economic benefit of the developing countries was none the less clear and indisputable. With regard to the issue of graduation, graduation and differentiation measures had continued to expand. In the face of petitions from domestic firms, GSP access had gradually been withdrawn for products which had become competitive in the developed country's market. In other instances, GSP was used as a means to exert pressure to open markets in developing countries. Recently, certain developed country counterparts had been considering removal of the GSP benefits on certain products granted to his country in retaliation for the increase of his country's tariff rates on certain products, an increase which was certainly legitimate under the current trade rules. He therefore called on the Special Committee to establish multilaterally agreed objective and rational graduation criteria, and suggested that any arbitrary

graduation measures should not be allowed until there was agreement on objective criteria.

44. The representative of **Bangladesh** said that from the viewpoint of a least developed country, account should be taken of several areas for improvements in the schemes, as the least developed countries had gained a limited result in the Uruguay Round. An erosion of GSP preferences owing to the Uruguay Round should be restored and new schemes should be found, particularly for the least developed countries. The percentage criterion should be reduced to 25 per cent for the latter countries as they were heavily dependent on imports for their exports. Ready-made garments should be included in all GSP schemes, particularly for the least developed countries. There should be no negative list for these countries. The GSP schemes should not be overloaded with unrelated issues concerning the environment and labour standard. Preference-giving countries should explore the possibility of applying the GSP concept to services in the context of the Uruguay Round. In this connection, Bangladesh would encourage the idea of giving preferences to the movement of all kinds of natural persons from least developed countries to work especially in the developed countries.

Chapter II

OTHER BUSINESS

[To be completed as appropriate]

Chapter III

ORGANIZATIONAL MATTERS

A. Opening of the session

.. The twenty-first session of the Special Committee on Preferences was opened by Mr. Carlos Fortin, Officer-in-charge of UNCTAD.

B. Election of officers

(Agenda item 1)

.. At its 181st plenary meeting on 16 May 1994, the Special Committee elected its bureau as follows:

Chairman:	Mr. Elikunda Mtango (United Republic of Tanzania)
Vice-Chairmen:	Mr. D. Yantais (Greece)
	Mr. Y. Afanassiev (Russian Federation)
	Miss T. Feroukhi (Algeria)
	Mr. G. Senadhira (Sri Lanka)
	Mr. M. Bicalho Cozendey (Brazil)
Rapporteur:	Mr. Z. Baltacioglu (Turkey)

C. Adoption of the agenda and organization of work

(Agenda item 2)

.. Also at its 181st plenary meeting, the Special Committee adopted its provisional agenda (TD/B/SCP/5) as follows:

1. Election of officers

2. Adoption of the agenda and organization of work

3. Review of the implementation, maintenance, improvement and utilization of the generalized system of preferences, including preparations for the 1995 policy review on the GSP

4. Consultations on harmonization and improvement of the rules of origin

5. Technical assistance in connection with the generalized system of preferences

6. Provisional agenda for the twenty-second session of the Special Committee on Preferences

7. Other business

8. Adoption of the report of the Special Committee on Preferences to the Trade and Development Board

D. Provisional agenda for the twenty-second session of the Special Committee on Preferences

(Agenda item 6)

[To be completed]

E. Adoption of the report of the Special Committee on Preferences to the Trade and Development Board

(Agenda item 7)

[To be completed]